

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Sebewaing	County Huron
Audit Date 3/31/04	Opinion Date 6/10/04	Date Accountant Report Submitted to State: 8/25/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			✓
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Nietzke & Faupel, P.C.			
Street Address 7274 Hartley Street	City Pigeon	State MI	ZIP 48755
Accountant Signature <i>Brian Hazel, CPA</i>		Date 8/25/04	

**VILLAGE OF SEBEWAING
SEBEWAING, MICHIGAN**

**FINANCIAL REPORT
MARCH 31, 2004**

VILLAGE OF SEBEWAING, MICHIGAN

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ALLAN W. NIETZKE, CPA
DONALD C. FAUPEL, CPA
JEFFREY P. BUSHEY, CPA
BRIAN V. HAZARD, CPA

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REPORT OF INDEPENDENT AUDITORS

To The Honorable Village Council
Village of Sebewaing
Sebewaing, Michigan 48759

We have audited the accompanying general purpose financial statements of Village of Sebewaing, Michigan as of and for the year ended March 31, 2004, as listed in the table of contents. These general purpose financial statements are the responsibility of Village of Sebewaing, Michigan management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of Village of Sebewaing, Michigan as of March 31, 2004, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining, individual fund, and individual account group financial statements and schedules listed in the table of contents under supplemental information are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Village of Sebewaing, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Nietzke & Faupel, PC

NIETZKE & FAUPEL, P.C.
SEBEWAING, MICHIGAN

June 10, 2004

GENERAL PURPOSE FINANCIAL STATEMENTS

VILLAGE OF SEBEWAING, MICHIGAN

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
MARCH 31, 2004

	GOVERNMENTAL FUND TYPES				PROPRIETARY FUND TYPES			ACCOUNT GROUPS			TOTALS	
	GENERAL		SPECIAL REVENUE		ENTERPRISE		INTERNAL SERVICE		GENERAL FIXED ASSETS		(MEMORANDUM ONLY)	
									LONG-TERM DEBT		MARCH 31,	
ASSETS											2004	2003
Cash	\$ 116,440	\$ 73,359			\$ 3,220,220		\$ 102,189				\$ 3,512,208	\$ 3,059,913
Certificates of deposit	164,000	138,000			318,000		30,000				650,000	650,000
Investments	188,876	30,174			2,036,920		9,382				2,265,352	2,261,834
Accounts receivable	21,488	28,594			84,056						134,138	115,899
Special assessments - Current												13,440
Accrued interest receivable	350	113			5,066		80				5,609	5,930
Inventory					368,456						368,456	368,749
Prepaid insurance	28,786	7,431			20,232		8,771				65,220	97,503
Due from Harbor Commission	15,366										15,366	17,505
Due from other funds		222									222	566
Restricted assets:												
Cash	13,689				121,588						135,277	114,743
Certificates of deposit					1,231,361						1,231,361	1,229,943
Investments	41,244				256,960						298,204	295,871
Accrued interest receivable					5,372						5,372	7,905
Fixed assets					11,926,991		399,509		\$ 1,269,456		13,595,956	13,276,934
Less accumulated depreciation					(6,133,766)		(314,819)				(6,448,585)	(6,165,705)
Bond issue costs					40,674						40,674	40,674
Less accumulated amortization					(26,158)						(26,158)	(24,389)
Amount to be provided for retirement of general long-term debt										\$ 49,827	49,827	49,438
TOTAL ASSETS	\$ 590,239	\$ 277,893			\$ 13,475,972		\$ 235,112		\$ 1,269,456	\$ 49,827	\$ 15,898,499	\$ 15,416,752

VILLAGE OF SEBEWAING, MICHIGAN

**COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
MARCH 31, 2004**

	<u>GOVERNMENTAL FUND TYPES</u>		<u>PROPRIETARY FUND TYPES</u>		<u>ACCOUNT GROUPS</u>			<u>TOTALS</u> <u>(MEMORANDUM ONLY)</u> <u>MARCH 31,</u>
	<u>SPECIAL</u>		<u>INTERNAL</u>		<u>GENERAL</u>	<u>FIXED</u>	<u>LONG-TERM</u>	
	<u>GENERAL</u>	<u>REVENUE</u>	<u>ENTERPRISE</u>	<u>SERVICE</u>	<u>ASSETS</u>	<u>DEBT</u>	<u>2004</u>	<u>2003</u>
LIABILITIES AND FUND EQUITY								
LIABILITIES:								
Accounts payable	\$ 2,633		\$ 63,729				\$ 66,362	\$ 69,859
Due to other funds		\$ 222					222	566
Withheld and accrued payroll taxes	1,845		3,207				5,052	5,588
Accrued payroll	2,934		2,650				5,584	9,407
Accrued compensated absences			68,584			\$ 49,827	118,411	114,866
Deferred revenue			5,074				5,074	
Customer deposits			15,550				15,550	14,850
Payable from restricted assets:								
Accrued interest payable			1,830				1,830	1,946
Bonds payable - Current			25,000				25,000	20,000
General obligation bonds payable			290,000				290,000	315,000
TOTAL LIABILITIES	<u>7,412</u>	<u>222</u>	<u>475,624</u>			<u>49,827</u>	<u>533,085</u>	<u>552,082</u>
FUND EQUITY:								
Contributed capital			362,932				362,932	365,702
Investment in general fixed assets					\$ 1,269,456		1,269,456	1,167,690
Retained earnings:								
Restricted			1,299,250	\$ 235,112			1,299,250	1,297,455
Unrestricted			11,338,166				11,573,278	11,014,368
Fund balance:								
Designated	54,933	277,671					54,933	53,814
Undesignated	527,894	277,671					805,565	965,639
TOTAL FUND EQUITY	<u>582,827</u>	<u>277,671</u>	<u>13,000,348</u>	<u>235,112</u>	<u>1,269,456</u>		<u>15,365,414</u>	<u>14,864,669</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 590,239</u>	<u>\$ 277,893</u>	<u>\$ 13,475,972</u>	<u>\$ 235,112</u>	<u>\$ 1,269,456</u>	<u>\$ 49,827</u>	<u>\$ 15,898,499</u>	<u>\$ 15,416,752</u>

VILLAGE OF SEBEWAING, MICHIGAN

**COMBINED STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
YEAR ENDED MARCH 31, 2004**

	GOVERNMENTAL FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	GENERAL	SPECIAL REVENUE	MARCH 31,	
			2004	2003
REVENUE:				
Taxes	\$ 340,894	\$ 120,441	\$ 461,335	\$ 495,071
Licenses and permits	595		595	645
Intergovernmental	238,827	188,476	427,303	450,677
Fines	3,356		3,356	2,158
Charges for services	71,591		71,591	71,230
Miscellaneous	25,522	21,674	47,196	87,451
TOTAL REVENUE	680,785	330,591	1,011,376	1,107,232
EXPENDITURES:				
Current:				
General government	151,431		151,431	122,249
Public safety	259,913		259,913	234,261
Public service	100,245		100,245	97,439
Highways and streets	37,326	419,374	456,701	461,962
Parks and recreation	58,062		58,062	61,082
Miscellaneous		650	650	625
Capital outlay	103,965		103,965	13,629
TOTAL EXPENDITURES	710,942	420,024	1,130,966	991,246
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	(30,157)	(89,433)	(119,590)	115,986
OTHER FINANCING SOURCES (USES):				
Operating transfers in	11,000	208,263	219,263	242,150
Operating transfers out	(39,366)	(219,263)	(258,629)	(275,994)
TOTAL OTHER FINANCING (USES)	(28,366)	(11,000)	(39,366)	(33,844)
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	(58,523)	(100,433)	(158,956)	82,142
FUND BALANCE - BEGINNING	641,350	378,104	1,019,454	937,312
FUND BALANCE - ENDING	\$ 582,827	\$ 277,671	\$ 860,498	\$ 1,019,454

VILLAGE OF SEBEWAING, MICHIGAN

COMBINED STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL AND SPECIAL REVENUE FUND TYPES
YEAR ENDED MARCH 31, 2004

	GENERAL FUND			SPECIAL REVENUE FUNDS			TOTALS (MEMORANDUM ONLY)		
	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE- FAVORABLE (UNFAVORABLE)	BUDGET	ACTUAL	VARIANCE FAVORABLE (UNFAVORABLE)
REVENUE:									
Taxes	\$ 343,635	\$ 340,894	\$ (2,741)	\$ 121,900	\$ 120,441	\$ (1,459)	\$ 465,535	\$ 461,335	\$ (4,200)
Licenses and permits	300	595	295				300	595	295
Intergovernmental	288,987	238,827	(50,160)	176,620	188,476	11,856	465,607	427,303	(38,304)
Fines	2,000	3,356	1,356				2,000	3,356	1,356
Charges for services	71,600	71,591	(9)				71,600	71,591	(9)
Miscellaneous	19,120	25,522	6,402	8,700	21,674	12,974	27,820	47,196	19,376
TOTAL REVENUE	725,642	680,785	(44,857)	307,220	330,591	23,371	1,032,862	1,011,376	(21,486)
EXPENDITURES:									
Current:									
General government	144,330	151,431	(7,101)				144,330	151,431	(7,101)
Public safety	247,850	259,913	(12,063)				247,850	259,913	(12,063)
Public service	101,000	100,245	755				101,000	100,245	755
Highways and streets	45,602	37,326	8,276	449,130	419,374	29,756	494,732	456,701	38,031
Parks and recreation	62,200	58,062	4,138				62,200	58,062	4,138
Miscellaneous				650	650		650	650	
Capital outlay	63,800	103,965	(40,165)				63,800	103,965	(40,165)
TOTAL EXPENDITURES	664,782	710,942	(46,160)	449,780	420,024	29,756	1,114,562	1,130,966	(16,404)
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	60,860	(30,157)	(91,017)	(142,560)	(89,433)	53,127	(81,700)	(119,590)	(37,890)
OTHER FINANCING SOURCES (USES):									
Operating transfers in	11,000	11,000		304,000	208,263	(95,737)	315,000	219,263	(95,737)
Operating transfers out	(34,800)	(39,366)	(4,566)	(113,770)	(219,263)	(105,493)	(148,570)	(258,629)	(110,059)
TOTAL OTHER FINANCING SOURCES (USES)	(23,800)	(28,366)	(4,566)	190,230	(11,000)	(201,230)	166,430	(39,366)	(205,796)
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	37,060	(58,523)	(95,583)	47,670	(100,433)	(148,103)	84,730	(158,956)	(243,686)
FUND BALANCE - BEGINNING	641,350	641,350	-	378,104	378,104	-	1,019,454	1,019,454	-
FUND BALANCE - ENDING	\$ 678,410	\$ 582,827	(95,583)	\$ 425,774	\$ 277,671	(148,103)	\$ 1,104,184	\$ 860,498	\$ (243,686)

VILLAGE OF SEBEWAING, MICHIGAN
COMBINED STATEMENT OF REVENUE, EXPENSES
AND CHANGE IN RETAINED EARNINGS
ALL PROPRIETARY FUND TYPES
YEAR ENDED MARCH 31, 2004

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	MARCH 31, 2004	2003
OPERATING REVENUE:				
Charges for services	\$ 2,970,155	\$ 105,133	\$ 3,075,288	\$ 2,876,529
Current property taxes	186,435		186,435	200,512
Intergovernmental	10,148		10,148	39,215
TOTAL OPERATING REVENUE	3,166,738	105,133	3,271,871	3,116,256
OPERATING EXPENSES:				
Salaries and wages	71,840	6,432	78,272	77,693
Employee benefits	26,675	4,223	30,898	26,195
Operating supplies		630	630	1,240
Gas and oil		6,366	6,366	7,446
Laboratory tests	2,650		2,650	2,570
Audit fees	2,650	775	3,425	4,260
Legal fees	1,479		1,479	2,791
Printing and publishing	2,593		2,593	2,759
Insurance	6,750	6,220	12,970	11,501
Lift station expense	4,212		4,212	4,154
Lead installations				1,638
Lagoon cleanout				78,124
Maintenance and repair	37,369	10,068	47,437	75,639
Equipment rental	11,081		11,081	12,345
Depreciation	60,770	36,511	97,281	85,062
Miscellaneous	2,049		2,049	451
Internet	20,368		20,368	5,470
Production	1,458,207		1,458,207	1,561,108
Distribution	290,778		290,778	296,628
General and administrative	785,643		785,643	737,893
TOTAL OPERATING EXPENSES	2,785,114	71,225	2,856,339	2,994,967
OPERATING INCOME	381,624	33,908	415,532	121,289
NONOPERATING REVENUE (EXPENSES):				
Interest income	109,439	2,254	111,693	135,817
Miscellaneous	9,377		9,377	12,397
Bond interest and fees	(23,537)		(23,537)	(24,933)
Amortization	(1,768)		(1,768)	(1,768)
Gain on sale of fixed assets		412	412	4,950
TOTAL NONOPERATING REVENUE	93,511	2,666	96,177	126,463
INCOME BEFORE OTHER FINANCING SOURCES	475,135	36,574	511,709	247,753
OTHER FINANCING SOURCES:				
Operating transfer in	37,227		37,227	33,844
NET INCOME	512,362	36,574	548,936	281,596
RETAINED EARNINGS - UNRESERVED - BEGINNING	10,815,830	198,538	11,014,368	10,731,235
(INCREASE) IN RESERVED RETAINED EARNINGS	(1,795)		(1,795)	(10,262)
CURRENT DEPRECIATION ALLOCATED TO CONTRIBUTED CAPITAL	11,770		11,770	11,799
RETAINED EARNINGS - UNRESERVED - ENDING	\$ 11,338,166	\$ 235,112	\$ 11,573,278	\$ 11,014,368

The accompanying notes are an integral part of the financial statements.

VILLAGE OF SEBEWAING, MICHIGAN

**COMBINED STATEMENT OF CASH FLOWS
ALL PROPRIETARY FUND TYPES
YEAR ENDED MARCH 31, 2004**

	PROPRIETARY FUND TYPES		TOTALS (MEMORANDUM ONLY)	
	ENTERPRISE	INTERNAL SERVICE	MARCH 31,	
			2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:				
Operating income	\$ 381,624	\$ 33,908	\$ 415,532	\$ 121,289
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	350,573	36,511	387,084	373,698
Miscellaneous revenue	7,960		7,960	10,520
(Increase) decrease in current assets:				
Accounts receivable - Trade	(15,218)		(15,218)	197,586
Accrued interest receivable		48	48	(110)
Due from other funds	344		344	10,125
Prepaid insurance	60,344	(7,845)	52,499	(30,139)
Inventories	293		293	(9,635)
Increase in current liabilities:				
Accounts payable	(3,592)		(3,592)	26,557
Accrued salaries and wages	(6,757)		(6,757)	653
Accrued compensated absences	3,156		3,156	11,117
Withheld and accrued payroll taxes and retirement	(1,495)		(1,495)	3,094
Deferred revenue	5,074		5,074	
Customer deposits	700		700	50
NET CASH PROVIDED BY OPERATING ACTIVITIES	783,006	62,622	845,628	714,805
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition of assets	(230,820)	(90,639)	(321,459)	(129,511)
Proceeds from sale of assets		412	412	4,950
Operating transfer for bond redemption	37,227		37,227	33,844
Special assessments and interest received for bond redemption	14,501		14,501	15,549
Principal paid on revenue bonds	(20,000)		(20,000)	(20,000)
Interest and fees paid on bonds	(23,652)		(23,652)	(25,047)
Contributed capital received	9,000		9,000	9,000
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(213,744)	(90,227)	(303,971)	(111,215)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Interest on investments	111,047	2,254	113,301	125,074
(Increase) in short-term investments	(2,943)	(57)	(3,000)	(5,390)
NET CASH PROVIDED BY INVESTING ACTIVITIES	108,104	2,197	110,301	119,684
NET INCREASE (DECREASE) IN CASH AND RESTRICTED CASH	677,366	(25,408)	651,958	723,274
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	4,213,803	157,597	4,371,400	3,648,126
CASH AND RESTRICTED CASH - END OF THE YEAR	\$ 4,891,169	\$ 132,189	\$ 5,023,358	\$ 4,371,400

The accompanying notes are an integral part of the financial statements.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Reporting Entity:

In evaluating how to define the Village for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic--but not the only--criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Village is able to exercise oversight responsibilities. Based upon the application of these criteria, the following is a brief review of each potential component unit addressed in defining the Village's reporting entity.

Included in the reporting entity:

Sebewaing Light and Water Department. The Light and Water Department is an entity legally separate from the Village and is governed by a four-member board of commissioners made up of members of the Village Council. For financial reporting purposes, the Light and Water Department is included in the reporting entity of the Village as a blended component unit because its purpose is to provide electric and water utility service to the residents of the Village.

Excluded from the reporting entity:

Unionville Sebewaing Area Schools. This potential component unit has a separate elected board and provides educational services to residents of the Village as well as other surrounding areas. This unit is excluded from the reporting entity because the Village does not have the ability to exercise influence or control over its daily operations, approve budgets or provide funding.

Sebewaing Harbor Commission. The Village of Sebewaing along with Sebewaing Township created this separate legal entity for the purpose of planning, acquiring, constructing and operating a community harbor to provide recreational services to the residents of the Village and Township along with the general public. Each governing body appointed three members to create a six member Board of Commissioners. Based on the criteria for determining which component units to include in the reporting entity, the Village's management has excluded the Harbor Commission from

VILLAGE OF SEBEWAING, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Reporting Entity: (Continued)

Sebewaing Harbor Commission (Continued)

the reporting entity of the Village. However, because of the financial interest and responsibility the Village and Township equally share for the Harbor Commission, the Harbor Commission is being treated as a joint venture between the Village of Sebewaing and the Sebewaing Township. The investment in the joint venture has been included in the General Fixed Assets Account Group and further disclosures related to the investment in the joint venture are included in Note 7.

Basis of Presentation:

The financial activities of the Village are recorded in separate funds and account groups, categorized and described as follows:

Governmental Funds:

General Fund-The General Fund is the general operating fund of the Village. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds-Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds:

Enterprise Funds - Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds (Equipment Rental Fund)-Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, or to other governments, on a cost-reimbursement basis.

Account Groups:

General Fixed Asset Account Group-General fixed assets are fixed assets used in governmental fund types and are accounted for in the General Fixed Assets Account Group. No depreciation has been provided on general fixed assets.

Fixed Assets (Proprietary Funds)-Fixed assets are stated at cost. Depreciation of fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on proprietary fund balance sheets. Enterprise fund depreciation is provided on the straight-line basis over the estimated useful lives of the respective class of assets. Equipment rental fund depreciation is provided under state guidelines on an accelerated basis over the estimated useful lives of the respective class of assets.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

"Totals-(Memorandum Only)":

The "Memorandum Only" total column represents the aggregate total of the various columnar statements by fund types and account groups. This total column is not comparable to a consolidation and, therefore, does not present consolidated information.

Basis of Accounting:

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenue is recognized when it becomes measurable and available as net current assets. Property taxes are recorded as revenue when levied to the extent that they are measurable and available in accordance with NCGA Interpretation 3. Licenses and permits, fines and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Intergovernmental revenue and interest income are accrued, when their receipt occurs soon enough after the end of the accounting period so as to be both measurable and available. Unbilled trash service receivables are recorded at year end.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

All proprietary funds are accounted for using the accrual basis of accounting. Their revenue is recognized when it is earned, and their expenses are recognized when they are incurred.

Budgets and Budgetary Accounting:

The Village Council practices the following procedures in establishing the budgetary data reflected in the financial statements:

1. In accordance with the Village charter, prior to March 1, the Village Clerk submits to the Village Council a proposed operating budget for the fiscal year commencing the following April 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The Village charter requires that the budget be submitted in summary form. In addition, more detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the department head/function level.
2. Public hearings are conducted to obtain taxpayer comment.
3. Prior to March 31, the budget is legally enacted through passage of a resolution.
4. The Village Clerk is required by the Village charter to present a monthly report to the Village Council explaining any variance from the approved budget.
5. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budgets and Budgetary Accounting: (Continued)

6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
7. Appropriations lapse at the end of each fiscal year.
8. The Village Council may authorize supplemental appropriations during the year.

Cash and Cash Equivalents:

Cash and cash equivalents of the Village include cash on hand and all deposits with financial institutions, including all certificates of deposit. Investments in U.S. Treasury Securities and approved municipal investment pools are excluded from cash and cash equivalents.

Compensated Absences:

Village and Light and Water Department employees are allowed to accumulate a maximum of one hundred twenty days of sick leave. In the event of death, termination of employment, or retirement of an employee, one-half of sick leave accumulation is paid to the employee at his current rate of pay. Unused sick leave in excess of one hundred twenty days is paid annually at one-half of regular pay rate. There is no accumulation of unused vacation days allowed. The Village accrues a liability for compensated absences based on the estimate of accumulated sick leave that will be paid to its employees upon termination of employment in accordance with the requirements of GASB Statement 16. For governmental funds, the liability for compensated absences is recorded in the general long-term debt account group since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types as an accrued liability in accordance with GASB Statement 16.

Property Taxes:

Property taxes attach as an enforceable lien on property as of December 31. Village taxes are levied on the following July 1 and are payable without penalty through September 14. Village property tax revenue is recognized as revenue in the fiscal year levied to the extent that it is measurable and available in accordance with NCGA Interpretation 3 (Revenue Recognition - Property Taxes).

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS:

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. In the body of the financial statements, the Village's expenditures and budgeted expenditures for the budgetary funds have been shown on a line item basis. The approved budgets of the Village for these budgetary funds were adopted to the activity level.

During the year ended March 31, 2004, the following expenditures were in excess of the amounts appropriated for the year:

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: (CONTINUED)

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
General government	\$144,330	\$151,431	\$ 7,101
Public safety	247,850	259,913	12,063
Capital outlay	63,800	103,965	40,165
Major Street:			
Winter maintenance	22,000	28,204	6,204
Local Street:			
Winter maintenance	13,000	16,147	3,147
Street Fund:			
Operating transfer out	113,770	219,263	105,493

NOTE 3 - CASH, CERTIFICATES OF DEPOSIT AND INVESTMENTS:

The carrying amount of cash and deposits with financial institutions of the Village of Sebewaing amounted to \$5,528,846 at March 31, 2004. The total bank balance as of the same date was \$5,789,830. Deposits with financial institutions are categorized as follows:

	<u>March 31, 2004</u>
Amount insured by the FDIC	\$2,681,361
Uncollateralized	<u>3,108,469</u>
Total deposits with financial institutions	<u>\$5,789,830</u>

The portion of the total deposits categorized as uncollateralized which is the property of the Village of Sebewaing is \$705,326, and \$2,403,143 is the property of the Sebewaing Light and Water Department, an Enterprise Fund.

The carrying amount of cash and deposits, which were restricted or designated for specific purposes as of March 31, 2004, amounted to \$1,366,638. Cash and deposits were restricted or designated for the following purposes:

	<u>March 31,</u>	
	<u>2004</u>	<u>2003</u>
Village beautification	\$ 5,785	\$ 5,285
Police vehicle replacement	1,421	1,421
Parks equipment	4,264	4,264
Scheiwe bell tower	582	582
Playscape	1,637	1,270
Retirement of general obligation sanitary sewer bonds and to extend, enlarge and improve the sewer system	271,588	251,921
Redemption of general obligation water improvement bonds	81,361	79,943
Building and equipment replacement for the Light and Water Department	<u>1,000,000</u>	<u>1,000,000</u>
Total restrictions on deposits	<u>\$1,366,638</u>	<u>\$1,344,686</u>

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 3 - CASH, CERTIFICATES OF DEPOSIT AND INVESTMENTS: (CONTINUED)

Michigan Compiled Laws Section 129.91, authorizes the Village to deposit and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the three highest classifications, which mature not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The Village's deposits are in accordance with statutory authority. The Village has authorized management to deposit and invest in the accounts of federally insured banks and savings and loan associations within the State of Michigan and bonds, securities and other obligations of the United States, or any agency of the United States in which the principal and interest is fully guaranteed by the United States. The Village's deposits and investments are within the authorization as set forth by the Village of Sebewaing.

Investments:

At March 31, 2004, the Sebewaing Light and Water Department held investments of \$1,900,000 in U.S. Treasury Securities with a carrying amount of \$1,895,648, which approximates the market value. The Light and Water Department owns the U.S. Treasury Securities directly and has purchased the securities through a "Treasury Direct" account with the Federal Reserve Bank of Chicago. Therefore, the investment would be classified as a Category 1 investment (Insured or registered, with securities held by the Department or its agent in the Department's name).

Also at March 31, 2004, Huron County, Michigan held investments in a Municipal Investment Pool for the Village of Sebewaing's Sanitary Sewer Fund's D.P.W. Sewer Construction Fund. The carrying amount of the Village's portion of the investment in the investment pool was \$161,056, which approximates market value. The Village also invested its own funds in a municipal investment pool separate from Huron County, Michigan during the year ended March 31, 2004. The balance in the Village's municipal investment pool at March 31, 2004, was \$506,853. Of these investments, \$298,204 has been restricted for the following purposes:

New office building	\$ 41,244
Sewer system replacement	86,923
Sewer system construction	161,056
Redemption of M-25 Sewer and Water Construction Bonds	<u>8,981</u>
Total restrictions on investments	<u>\$298,204</u>

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 4 - INVENTORIES:

Inventories are stated at cost determined on the first-in, first-out method. Inventories consisted of the following:

	March 31,	
	<u>2004</u>	<u>2003</u>
Light Department:		
Poles, towers, fixtures	\$ 17,584	\$ 23,555
Line material	112,220	105,267
Line transformers	141,870	154,665
Meters	6,213	6,905
Street lighting	5,965	6,090
Customer service – Lamps	4,053	5,006
Office supplies	600	600
Lamps – Resale	10,285	10,315
Fuel oil, lubricants	20,899	15,988
Customer service – Material	<u>1,500</u>	<u>1,500</u>
Total Light Department	<u>321,189</u>	<u>329,891</u>
Water Department:		
Distribution mains, services	8,331	8,196
Fire hydrants	4,350	5,075
Meters	11,013	2,087
Maintenance supplies	19,945	19,872
Office supplies	<u>350</u>	<u>350</u>
Total Water Department	<u>43,989</u>	<u>35,580</u>
Sanitary Sewer Fund:		
Pipes, manhole covers, etc.	3,278	3,278
Total Inventory	<u>\$368,456</u>	<u>\$368,749</u>

NOTE 5 - CHANGES IN GENERAL FIXED ASSETS:

	BALANCE MARCH 31, <u>2003</u>	<u>ADDITIONS</u>	<u>DELETIONS</u>	BALANCE MARCH 31, <u>2004</u>
GENERAL FIXED ASSETS:				
Land	\$ 342,545			\$ 342,545
Buildings	470,412			470,412
Net investment in joint venture (Sebewaing Harbor Commission)	45,074	\$ 37,550		82,624
Equipment:				
Village office	40,686	6,201		46,887
Police department	73,099	25,892		98,991
Department of Public Works	10,859	4,187		15,046
Parks and recreation department	<u>185,015</u>	<u>32,961</u>	<u>5,025</u>	<u>212,951</u>
TOTAL GENERAL FIXED ASSETS	<u>\$1,167,690</u>	<u>\$ 106,791</u>	<u>\$ 5,025</u>	<u>\$1,269,456</u>

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 6 - SUMMARY OF PROPRIETARY FUND FIXED ASSETS:

	<u>ENTERPRISE</u>	<u>INTERNAL SERVICE</u>
Land and land improvements	\$ 330,227	
Buildings and structures	1,024,533	
Electric system	4,568,048	
Sewer collection system	2,244,585	
Water system	2,330,751	
Equipment	1,166,266	\$399,509
Roads and paving	66,781	
Fencing	8,259	
Fiber line	102,867	
Internet equipment	33,517	
Construction in progress	51,157	
Total	11,926,991	399,509
Less accumulated depreciation	<u>(6,133,766)</u>	<u>(314,819)</u>
Net Property, Plant and Equipment	<u>\$ 5,793,225</u>	<u>\$ 84,690</u>

Depreciation expense for the year ended March 31, 2004, amounted to \$350,573 and \$36,511 for the Enterprise Funds and the Internal Service Fund, respectively.

NOTE 7 - INVESTMENT IN JOINT VENTURE:

As described in Note 1, included in the General Fixed Asset Group of Accounts is the amount of \$82,624, which represents the Village's investment in the Sebewaing Harbor Commission. The Sebewaing Harbor Commission is being treated as a joint venture because the Village shares equal financial and oversight responsibility with Sebewaing Township. The following is a condensed balance sheet of the Sebewaing Harbor Commission as of March 31, 2004:

Assets:	
Cash	\$ 1,421
Due from Sebewaing Township	974
Fixed assets	<u>178,440</u>
Total Assets	<u>\$180,835</u>
Liabilities:	
Due to Village of Sebewaing	\$15,366
Deferred revenue	<u>221</u>
Total Liabilities	<u>\$15,587</u>
Fund Equity:	
Contributed capital	165,248
Total Liabilities and Fund Equity	<u>\$180,835</u>

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 7 - INVESTMENT IN JOINT VENTURE: (CONTINUED)

The Village of Sebawaing and Sebawaing Township on an equal basis formed the Sebawaing Harbor Commission to construct a marina. The Sebawaing Harbor Commission owned the land and received annual lease payments from the operator of the marina facility. The construction of the marina was financed by grants from the State of Michigan.

The Village advanced funds to the Harbor Commission which were used for the purchase of land at the proposed site of the marina. As of March 31, 2004, the amount due to the Village of Sebawaing from the Sebawaing Harbor Commission amounted to \$15,366. Also, an amount due to the Sebawaing Harbor Commission from Sebawaing Township amounted to \$974.

During the year ended March 31, 2004, the Sebawaing Harbor Commission purchased the marina operating lease from the private operator of the marina. For the year ending March 31, 2005, the marina will be run by the Sebawaing Harbor Commission.

NOTE 8 - LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the Village for the year ended March 31, 2004:

	GENERAL LONG-TERM DEBT ACCRUED COMPENSATED ABSENCES	ENTERPRISE FUNDS M-25 SEWER AND WATER CONSTRUCTION BONDS
Balance, March 31, 2003	\$49,438	\$335,000
Bonds retired		(20,000)
Net change in accrued compensated absences	389	
Total	49,827	315,000
Less: Current portion		(25,000)
Balance, March 31, 2004	<u>\$49,827</u>	<u>\$290,000</u>

Details of the Village of Sebawaing's long-term debt as of March 31, 2004, are as follows:

On June 1, 1989, Huron County issued bonds totaling \$525,000 for the Village of Sebawaing for the purpose of defraying the cost of acquiring and constructing sanitary sewer and water lines along M-25 from Sebawaing Road south approximately 2,800 feet. The bonds shall be known as "Sebawaing M-25 Water and Sanitary Sewer System Bonds" and shall mature on September 1, 1990 and each September 1 thereafter until fully paid. The bonds shall bear interest payable September 1, 1989 and each March 1 and September 1 thereafter until maturity. The bonds final maturity date is September 1, 2012. The interest rates on the bonds range from 6.65% to 9.5% per annum, depending on maturity dates of the individual bonds. Bonds maturing on or after September 1, 2002 shall be subject to redemption in whole or in part on any interest payment date on or after September 1, 2001 in any order, at the option of the County, at par, plus accrued interest, plus a premium, if any, stated as a percentage of the face amount, as follows:

VILLAGE OF SEBEWAING, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004**

NOTE 8 - LONG-TERM DEBT: (CONTINUED)

If redeemed on or after September 1, 2001, but before September 1, 2006: 2%

If redeemed on or after September 1, 2006, but before September 1, 2011: 1%

Bonds maturing on or after September 1, 2011 shall be subject to redemption without a premium.

Total Bonded Debt Outstanding	\$315,000
Less: Current Portion of Bonds	
Total Long-Term Portion of Bonded Debt	<u>315,000</u> <u>(25,000)</u> <u>\$290,000</u>

Bonded Debt Service requirements at March 31, 2004 are as follows:

	<u>TOTAL</u>	<u>PRINCIPAL</u>	<u>INTEREST</u>
Year Ending 3/31/05	\$ 46,428	\$ 25,000	\$ 21,428
3/31/06	44,678	25,000	19,678
3/31/07	47,745	30,000	17,745
3/31/08	50,454	35,000	15,454
3/31/09	52,810	40,000	12,810
Remaining years	<u>182,602</u>	<u>160,000</u>	<u>22,602</u>
Totals	<u>\$424,717</u>	<u>\$315,000</u>	<u>\$109,717</u>

Total interest incurred by the Enterprise Funds amounted to \$23,537 for the year ended March 31, 2004, all of which was charged to expense.

NOTE 9 - DESIGNATED FUND BALANCE AND RESERVED RETAINED EARNINGS:

A detailed description of fund balance designations and retained earnings reservations for all governmental and proprietary fund types at March 31, is presented below:

	<u>2004</u>	<u>2003</u>
GENERAL FUND:		
Fund balance:		
Designated for beautification	\$ 5,785	\$ 5,285
Designated for police vehicle replacement	1,421	1,421
Designated for park equipment	4,264	4,264
Designated for playscape	1,637	1,270
Designated for Scheiwe bell tower	582	582
Designated for new office building	<u>41,244</u>	<u>40,992</u>
TOTAL DESIGNATED FUND BALANCE	<u>\$54,933</u>	<u>\$53,814</u>

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 9 - DESIGNATED FUND BALANCE AND RESERVED RETAINED EARNINGS: (CONTINUED)

ENTERPRISE FUNDS:

Retained earnings:		
Reserved to extend, enlarge and improve the sewer system	\$ 206,955	\$ 203,353
Reserved for sewer replacement	86,923	86,393
Reserved for capital outlay in the Light and Water Department	<u>1,005,372</u>	<u>1,007,709</u>
TOTAL RESERVED RETAINED EARNINGS	<u>\$1,299,250</u>	<u>\$1,297,455</u>

NOTE 10 - CONTRIBUTED CAPITAL:

The changes in contributed capital are comprised of the following:

	<u>SEWER FUND</u>	<u>M-25 SEWER AND WATER FUND</u>	<u>LIGHT AND WATER DEPARTMENT</u>
Contributed capital, March 31, 2003	\$97,443	\$149,485	\$118,774
Contributed capital received			9,000
Depreciation allocation deduction	<u>(4,717)</u>	<u>(4,096)</u>	<u>(2,957)</u>
Contributed capital, March 31, 2004	<u>\$92,726</u>	<u>\$145,389</u>	<u>\$124,817</u>

NOTE 11 - RETIREMENT SYSTEM - MERS OPERATED:

Pension Plan:

Plan Description: The Village of Sebewaing participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 447 N. Canal Road, Lansing, Michigan 48917.

Funding Policy: The obligation to contribute to and maintain the system for these employees was established by state statutes and requires a contribution from the employees of 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200.

Annual Pension Cost: For the year ended March 31, 2004, the Village's annual pension cost of \$49,267 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year, and (c) 2 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 3%. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis.

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 11 - RETIREMENT SYSTEM - MERS OPERATED: (CONTINUED)

Three year trend information:

	<u>Fiscal year ended December 31,</u>		
	<u>2000</u>	<u>2001</u>	<u>2002</u>
Annual pension cost	\$ 53,000	\$ 46,630	\$ 40,557
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-0-	-0-	-0-
Actuarial value of assets	3,695,648	3,889,733	3,856,702
Actuarial Accrued Liability (entry age)	3,934,482	4,097,132	4,521,390
Unfunded AAL	238,834	207,399	664,668
Funded ratio	94%	95%	85%
Covered payroll	844,007	795,359	837,974
UAAL as a percentage of covered payroll	28%	26%	79%

NOTE 12 - DEFERRED COMPENSATION:

Employees of the Village of Sebewaing may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect To Service For State and Local Governments).

The deferred compensation plan is available to all employees of the Village. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency. The deferred compensation plan is administered by an unrelated financial institution.

NOTE 13 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS:

The Village maintains three Enterprise Funds which provide electric, water, and sewer services. The Sebewaing Light and Water Department has three classes of customers: residential, commercial, and industrial. Approximately 60% of the Department's gross revenue is attributable to its five industrial customers which range from the agri-service industry to the tool and die industry. Segment information for the year ended March 31, 2004, is as follows:

	<u>SANITARY SEWER</u>	<u>M-25 WATER AND SEWER SYSTEM</u>	<u>LIGHT AND WATER DEPARTMENT</u>	<u>TOTAL</u>
Operating revenue	\$ 368,999	\$ 7,677	\$2,790,062	\$3,166,738
Depreciation	52,373	8,397	289,803	350,573
Amortization		1,768		1,768
Operating income (loss)	147,682	(1,124)	235,066	381,624
State shared revenue	5,074		5,074	10,148
Operating transfers in		37,227		37,227
Current property taxes	93,258		93,177	186,435
Net income	164,730	14,158	333,473	512,362
Current capital contributions			9,000	9,000

VILLAGE OF SEBEWAING, MICHIGAN

NOTES TO THE FINANCIAL STATEMENTS MARCH 31, 2004

NOTE 13 - SEGMENT INFORMATION FOR ENTERPRISE FUNDS: (CONTINUED)

Property, plant and equipment:

Additions	42,734		190,578	233,312
Deletions	3,092		72,914	76,006
Net working capital	839,415	1,925	5,116,514	5,963,226
Total assets	2,099,930	551,182	10,824,860	13,475,972

Bonds and long-term liabilities:

(Payable from special assessments
and other sources)

315,000 315,000

Total equity:

Contributed capital	92,726	145,389	124,817	362,932
Retained earnings – Unreserved	1,710,751	88,963	9,538,452	11,338,166
Retained earnings – Reserved	293,878		1,005,372	1,299,250

NOTE 14 – CONTINGENT LIABILITIES:

The Village is a reimbursing employer for purposes of unemployment insurance claims against the Village. The Village reimburses the State of Michigan for all benefits charged against it in the event of termination of employment and subsequent claims of its employees. Because an estimate cannot be made, the contingent liability for unemployment insurance claims is not recognized in the accompanying financial statements. This expense is recognized as incurred.

NOTE 15 - RELATED PARTY TRANSACTIONS:

As a matter of convenience, the Sebewaing Light and Water Department collects sewer, trash and fines billed by the Village of Sebewaing along with its own electric and water utility billings from customers. The collections for sewer, trash and fine charges are then periodically transferred to the Village's accounts. During the year ended March 31, 2004, the Village's General and Sanitary Sewer Funds paid \$37,997 to the Light and Water Department for electric service for street lighting and lift station operation.

NOTE 16 - RISK MANAGEMENT:

General Liability:

Village of Sebewaing participates in the Michigan Municipal Liability and Property Pool, which is a public entity risk pool, for the coverage of significant losses due to its general liability. The participation in the pool constitutes transfer of the risk for significant losses to the pool with a coverage limit of \$8.6 million for real and personal property losses and \$5 million for liability losses. Village of Sebewaing is required to pay annual premiums to the Michigan Municipal Liability and Property Pool for the liability coverage. No supplemental premium assessment is required by the Michigan Municipal Liability and Property Pool. There have been no significant reductions in insurance coverage and settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Workers' Compensation:

Village of Sebewaing purchased commercial insurance coverage for losses related to workers' compensation claims.

VILLAGE OF SEBEWAING, MICHIGAN

**NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2004**

NOTE 16 - RISK MANAGEMENT: (CONTINUED)

Employee Health Care:

Village of Sebewaing purchased commercial insurance coverage for its employees and their dependents.

NOTE 17 - COMMITMENTS:

On April 19, 2000, the Sebewaing Light and Water Commission approved entering into a contract for \$489,471 for the installation of a water main along Pine, 3rd and Sebewaing Streets. As of March 31, 2001, the water main installation project along Pine Street was completed in the amount of \$254,622 and \$15,408 has been incurred on the remainder of the project. No activity has taken place during the years ended March 31, 2004 and 2003. The planned completion date of this project is June, 2004.

SUPPLEMENTAL INFORMATION

VILLAGE OF SEBEWAING, MICHIGAN

**SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET
MARCH 31, 2004**

	<u>MAJOR</u> <u>STREET</u>	<u>LOCAL</u> <u>STREET</u>	<u>STREET</u>	<u>TOTALS</u> <u>MARCH 31,</u>	
				<u>2004</u>	<u>2003</u>
<u>ASSETS</u>					
Cash	\$ 3,242	\$ 3,120	\$ 66,997	\$ 73,359	\$ 85,878
Certificates of deposit	13,000		125,000	138,000	138,000
Investments	380	8,638	21,156	30,174	122,812
Accounts receivable	20,598	7,996		28,594	25,618
Accrued interest receivable	23		90	113	177
Prepaid insurance	3,688	3,743		7,431	5,620
Due from other funds		222		222	222
TOTAL ASSETS	<u>\$ 40,931</u>	<u>\$ 23,719</u>	<u>\$ 213,243</u>	<u>\$ 277,893</u>	<u>\$ 378,327</u>
<u>LIABILITIES AND FUND BALANCE</u>					
<u>CURRENT LIABILITIES:</u>					
Due to other funds	\$ 222			\$ 222	\$ 222
<u>FUND BALANCE:</u>					
Undesignated	40,709	\$ 23,719	\$ 213,243	277,671	378,104
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 40,931</u>	<u>\$ 23,719</u>	<u>\$ 213,243</u>	<u>\$ 277,893</u>	<u>\$ 378,327</u>

VILLAGE OF SEBEWAING, MICHIGAN

**SPECIAL REVENUE FUNDS
COMBINING STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE
YEAR ENDED MARCH 31, 2004**

	<u>MAJOR STREET</u>	<u>LOCAL STREET</u>	<u>STREET</u>	<u>TOTALS MARCH 31,</u>	
				<u>2004</u>	<u>2003</u>
REVENUE:					
Taxes			\$ 120,441	\$ 120,441	\$ 129,479
Intergovernmental	\$ 107,490	\$ 41,060	39,926	188,476	186,522
Miscellaneous	17,357	416	3,901	21,674	13,886
TOTAL REVENUE	<u>124,847</u>	<u>41,476</u>	<u>164,268</u>	<u>330,591</u>	<u>329,887</u>
EXPENDITURES:					
Streets	306,168	113,206		419,374	388,958
Miscellaneous			650	650	625
TOTAL EXPENDITURES	<u>306,168</u>	<u>113,206</u>	<u>650</u>	<u>420,024</u>	<u>389,583</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(181,321)</u>	<u>(71,730)</u>	<u>163,618</u>	<u>(89,433)</u>	<u>(59,697)</u>
OTHER FINANCING SOURCES (USES):					
Operating transfers in	183,263	25,000		208,263	220,000
Operating transfers out			(219,263)	(219,263)	(242,150)
TOTAL OTHER FINANCING SOURCES (USES)	<u>183,263</u>	<u>25,000</u>	<u>(219,263)</u>	<u>(11,000)</u>	<u>(22,150)</u>
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>1,942</u>	<u>(46,730)</u>	<u>(55,645)</u>	<u>(100,433)</u>	<u>(81,847)</u>
FUND BALANCE - BEGINNING OF YEAR	<u>38,767</u>	<u>70,449</u>	<u>268,888</u>	<u>378,104</u>	<u>459,951</u>
FUND BALANCE - END OF YEAR	<u>\$ 40,709</u>	<u>\$ 23,719</u>	<u>\$ 213,243</u>	<u>\$ 277,671</u>	<u>\$ 378,104</u>

VILLAGE OF SEBEWAING, MICHIGAN

**MAJOR STREET FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2004**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUE:			
Intergovernmental:			
Gas and weight tax	\$ 99,150	\$ 102,560	\$ 3,410
Build Michigan road program		3,440	3,440
Maintenance		1,490	1,490
Sweeping	<u>3,000</u>	<u> </u>	<u>(3,000)</u>
Total intergovernmental	102,150	107,490	5,340
Miscellaneous:			
Special assessment		16,575	16,575
Interest income	<u>700</u>	<u>782</u>	<u>82</u>
TOTAL REVENUE	<u>102,850</u>	<u>124,847</u>	<u>21,997</u>
EXPENDITURES:			
Routine maintenance - Streets	75,000	71,646	3,354
Construction of bridge	201,230	180,585	20,645
Trees	2,650	350	2,300
Traffic services	2,000	1,600	400
Winter maintenance	22,000	28,204	(6,204)
Administration	<u>24,650</u>	<u>23,784</u>	<u>866</u>
TOTAL EXPENDITURES	<u>327,530</u>	<u>306,168</u>	<u>21,362</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES	<u>(224,680)</u>	<u>(181,321)</u>	<u>43,359</u>
OTHER FINANCING SOURCES:			
Operating transfers in	222,000	183,263	(38,737)
EXCESS OF REVENUE AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>(2,680)</u>	<u>1,942</u>	<u>4,622</u>
FUND BALANCE - BEGINNING OF YEAR	38,767	38,767	
FUND BALANCE - END OF YEAR	<u>\$ 36,087</u>	<u>\$ 40,709</u>	<u>\$ 4,622</u>

VILLAGE OF SEBEWAING, MICHIGAN

**LOCAL STREET FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2004**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUE:			
Intergovernmental:			
Gas and weight tax	\$ 38,300	\$ 39,727	\$ 1,427
Build Michigan road program		1,332	1,332
Miscellaneous:			
Interest income	<u>500</u>	<u>416</u>	<u>(84)</u>
TOTAL REVENUE	<u>38,800</u>	<u>41,475</u>	<u>2,675</u>
EXPENDITURES:			
Construction	2,500		2,500
Routine maintenance	77,000	72,353	4,647
Trees	3,000	452	2,548
Traffic services	2,200	1,199	1,001
Winter maintenance	13,000	16,147	(3,147)
Administration	<u>23,900</u>	<u>23,055</u>	<u>845</u>
TOTAL EXPENDITURES	<u>121,600</u>	<u>113,206</u>	<u>8,394</u>
EXCESS OF REVENUE (UNDER)			
EXPENDITURES	<u>(82,800)</u>	<u>(71,730)</u>	<u>11,070</u>
OTHER FINANCING SOURCES:			
Operating transfers in	82,000	25,000	(57,000)
EXCESS OF REVENUE AND OTHER SOURCES			
(UNDER) EXPENDITURES	<u>(800)</u>	<u>(46,730)</u>	<u>(45,930)</u>
FUND BALANCE - BEGINNING OF YEAR	70,449	70,449	
FUND BALANCE - END OF YEAR	<u>\$ 69,649</u>	<u>\$ 23,719</u>	<u>\$ (45,930)</u>

VILLAGE OF SEBEWAING, MICHIGAN

**STREET FUND
STATEMENT OF REVENUE, EXPENDITURES
AND CHANGE IN FUND BALANCE - BUDGET AND ACTUAL
YEAR ENDED MARCH 31, 2004**

	<u>BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
REVENUE:			
Taxes:			
Current property taxes	\$ 121,900	\$ 120,441	\$ (1,459)
Intergovernmental:			
County road tax	31,100	33,267	2,167
State shared revenue	5,070	6,659	1,589
Miscellaneous:			
Interest on investments	<u>7,500</u>	<u>3,901</u>	<u>(3,599)</u>
TOTAL REVENUE	<u>165,570</u>	<u>164,268</u>	<u>(1,302)</u>
EXPENDITURES:			
Audit	650	650	
EXCESS OF REVENUE OVER EXPENDITURES	<u>164,920</u>	<u>163,618</u>	<u>(1,302)</u>
OTHER FINANCING (USES):			
Operating transfers out	(113,770)	(219,263)	(105,493)
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES AND OTHER (USES)	<u>51,150</u>	<u>(55,645)</u>	<u>(106,795)</u>
FUND BALANCE - BEGINNING OF YEAR	268,888	268,888	
FUND BALANCE - END OF YEAR	<u>\$ 320,038</u>	<u>\$ 213,243</u>	<u>\$(106,795)</u>

VILLAGE OF SEBEWAING, MICHIGAN
COMBINING BALANCE SHEET - ENTERPRISE FUNDS
MARCH 31, 2004

	<u>SANITARY SEWER</u>	<u>M-25 WATER AND SEWER SYSTEM</u>	<u>LIGHT AND WATER DEPARTMENT</u>	<u>TOTALS MARCH 31, 2004</u>	<u>2003</u>
ASSETS					
CURRENT ASSETS:					
Cash	\$ 341,772		\$ 2,878,448	\$ 3,220,220	\$ 2,563,939
Certificate of deposit	318,000			318,000	318,000
Investments	141,272		1,895,648	2,036,920	2,034,793
Accounts receivable	31,272	\$ 1,925	50,859	84,056	68,839
Due from other funds					344
Special assessments - Current					13,440
Accrued interest receivable	803		4,263	5,066	5,245
Inventory	3,278		365,178	368,456	368,749
Prepaid insurance	5,593		14,639	20,232	80,576
TOTAL CURRENT ASSETS	<u>841,990</u>	<u>1,925</u>	<u>5,209,035</u>	<u>6,052,950</u>	<u>5,453,925</u>
RESTRICTED ASSETS:					
Cash	56,955	64,633		121,588	101,921
Certificates of deposit	150,000		1,081,361	1,231,361	1,229,943
Investments	86,923	170,037		256,960	254,879
Accrued interest receivable			5,372	5,372	7,709
TOTAL RESTRICTED ASSETS	<u>293,878</u>	<u>234,670</u>	<u>1,086,733</u>	<u>1,615,281</u>	<u>1,594,452</u>
FIXED ASSETS					
	2,324,595	419,844	9,182,552	11,926,991	11,769,685
LESS: ACCUMULATED DEPRECIATION	<u>(1,360,533)</u>	<u>(119,773)</u>	<u>(4,853,460)</u>	<u>(6,133,766)</u>	<u>(5,856,707)</u>
FIXED ASSETS - NET	<u>964,062</u>	<u>300,071</u>	<u>4,529,092</u>	<u>5,793,225</u>	<u>5,912,978</u>
OTHER ASSETS:					
Bond issue costs		40,674		40,674	40,674
Less: Accumulated amortization		<u>(26,158)</u>		<u>(26,158)</u>	<u>(24,389)</u>
TOTAL OTHER ASSETS		<u>14,516</u>		<u>14,516</u>	<u>16,285</u>
TOTAL ASSETS	<u>\$ 2,099,930</u>	<u>\$ 551,182</u>	<u>\$ 10,824,860</u>	<u>\$ 13,475,972</u>	<u>\$ 12,977,640</u>

VILLAGE OF SEBEWAING, MICHIGAN

COMBINING BALANCE SHEET - ENTERPRISE FUNDS
MARCH 31, 2004

	SANITARY SEWER	M-25 WATER AND SEWER SYSTEM	LIGHT AND WATER DEPARTMENT	TOTALS MARCH 31, 2004	2003
LIABILITIES AND FUND EQUITY					
CURRENT LIABILITIES (PAYABLE FROM					
CURRENT ASSETS):					
Accounts payable	\$ 2,575		\$ 61,154	\$ 63,729	\$ 67,320
Withheld & accrued payroll taxes and retirement			3,207	3,207	4,702
Accrued payroll			2,650	2,650	9,407
Deferred revenue			5,074	5,074	
Customer deposits			15,550	15,550	14,850
Accrued compensated absences - current portion			4,886	4,886	8,332
TOTAL	2,575		92,521	95,096	104,611
CURRENT LIABILITIES (PAYABLE FROM					
RESTRICTED ASSETS):					
Accrued interest payable		\$ 1,830		1,830	1,946
Bonds payable - Current		25,000		25,000	20,000
TOTAL		26,830		26,830	21,946
TOTAL CURRENT LIABILITIES	2,575	26,830	92,521	121,926	126,557
NONCURRENT LIABILITIES:					
Accrued compensated absences			63,698	63,698	57,096
Bonds payable		290,000		290,000	315,000
TOTAL NONCURRENT LIABILITIES		290,000	63,698	353,698	372,096
TOTAL LIABILITIES	2,575	316,830	156,219	475,624	498,653
FUND EQUITY:					
Retained Earnings:					
Reserved	293,878		1,005,372	1,299,250	1,297,455
Unreserved	1,710,751	88,963	9,538,452	11,338,166	10,815,830
Total Retained Earnings	2,004,629	88,963	10,543,824	12,637,416	12,113,285
Contributed Capital	92,726	145,389	124,817	362,932	365,702
TOTAL FUND EQUITY	2,097,355	234,352	10,668,641	13,000,348	12,478,987
TOTAL LIABILITIES AND FUND EQUITY	\$ 2,099,930	\$ 551,182	\$ 10,824,860	\$ 13,475,972	\$ 12,977,640

VILLAGE OF SEBEWAING, MICHIGAN
COMBINING STATEMENT OF REVENUE, EXPENSES
AND CHANGE IN RETAINED EARNINGS
ENTERPRISE FUNDS
YEAR ENDED MARCH 31, 2004

	SANITARY SEWER	M-25 WATER AND SEWER SYSTEM	LIGHT AND WATER DEPARTMENT	TOTALS MARCH 31,	
				2004	2003
OPERATING REVENUE:					
Charges for services	\$ 270,667	\$ 7,677	\$ 2,691,811	\$ 2,970,155	\$ 2,777,945
Current property taxes	93,258		93,177	186,435	200,512
Intergovernmental	5,074		5,074	10,148	39,215
TOTAL OPERATING REVENUE	368,999	7,677	2,790,062	3,166,738	3,017,672
OPERATING EXPENSES:					
Salaries and wages	71,840			71,840	70,047
Employee benefits	26,675			26,675	22,375
Laboratory tests	2,650			2,650	2,570
Audit fees	2,650			2,650	3,510
Legal fees	1,479			1,479	2,791
Printing and publishing	2,593			2,593	2,759
Insurance	6,750			6,750	4,830
Lift station expense	4,212			4,212	4,154
Lead installations				-	1,638
Maintenance and repair	37,369			37,369	62,464
Equipment rental	11,081			11,081	12,345
Lagoon cleanout					78,124
Miscellaneous	1,645	404		2,049	451
Depreciation	52,373	8,397		60,770	62,329
Internet			20,368	20,368	5,470
Production			1,458,207	1,458,207	1,561,108
Distribution			290,778	290,778	296,628
General and administrative			785,643	785,643	737,893
TOTAL OPERATING EXPENSES	221,317	8,801	2,554,996	2,785,114	2,931,486
OPERATING INCOME (LOSS)	147,682	(1,124)	235,066	381,624	86,186
NONOPERATING REVENUE (EXPENSES):					
Interest income	15,213	3,361	90,865	109,439	133,175
Miscellaneous	1,835		7,542	9,377	12,397
Bond interest and fees		(23,537)		(23,537)	(24,933)
Amortization		(1,768)		(1,768)	(1,768)
TOTAL NONOPERATING REVENUE (EXPENSES)	17,048	(21,944)	98,407	93,511	118,871
INCOME (LOSS) BEFORE OTHER FINANCING SOURCES	164,730	(23,068)	333,473	475,135	205,057
OTHER FINANCING SOURCES:					
Operating transfer in		37,227		37,227	33,844
NET INCOME	164,730	14,158	333,473	512,362	238,901
RETAINED EARNINGS - BEGINNING	1,545,436	70,709	9,199,685	10,815,830	10,575,392
(INCREASE) DECREASE IN RESERVED RETAINED EARNINGS	(4,132)		2,337	(1,795)	(10,262)
CURRENT DEPRECIATION ALLOCATED TO CONTRIBUTED CAPITAL	4,717	4,096	2,957	11,770	11,799
RETAINED EARNINGS - ENDING	\$ 1,710,751	\$ 88,963	\$ 9,538,452	\$ 11,338,166	\$ 10,815,830

VILLAGE OF SEBEWAING, MICHIGAN

**COMBINING STATEMENT OF CASH FLOWS
ENTERPRISE FUNDS
YEAR ENDED MARCH 31, 2004**

	<u>SANITARY SEWER</u>	<u>M-25 WATER AND SEWER SYSTEM</u>	<u>LIGHT AND WATER DEPARTMENT</u>	<u>TOTALS MARCH 31,</u>	
				<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES:					
Operating income (loss)	\$ 147,682	\$ (1,124)	\$ 235,066	\$ 381,624	\$ 86,186
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	52,373	8,397	289,803	350,573	350,965
Miscellaneous	1,836		6,124	7,960	10,520
(Increase) decrease in current assets:					
Accounts receivable - Trade	(3,946)	(33)	(11,239)	(15,218)	197,586
Due from other funds			344	344	10,125
Prepaid insurance	(2,630)		62,974	60,344	(29,213)
Inventories			293	293	(9,635)
Increase (decrease) in current liabilities:					
Accounts payable	(597)		(2,995)	(3,592)	26,557
Accrued salaries and wages			(6,757)	(6,757)	653
Accrued compensated absences			3,156	3,156	11,117
Withheld and accrued payroll taxes and retirement			(1,495)	(1,495)	3,094
Deferred revenue			5,074	5,074	
Customer deposits			700	700	50
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>194,718</u>	<u>7,240</u>	<u>581,048</u>	<u>783,006</u>	<u>658,005</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Acquisitions of assets	(42,723)		(188,097)	(230,820)	(125,884)
Operating transfer for payment of bonds		37,227		37,227	33,844
Principal paid on revenue bonds		(20,000)		(20,000)	(20,000)
Interest and fees paid on bonds		(23,852)		(23,852)	(25,047)
Contributed capital received			9,000	9,000	9,000
Special assessments and interest received		14,501		14,501	15,549
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(42,723)</u>	<u>8,076</u>	<u>(179,097)</u>	<u>(213,744)</u>	<u>(112,538)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:					
Interest on investments	16,341	2,300	92,406	111,047	122,432
(Increase) in short-term investments	(1,392)	(1,551)		(2,943)	(5,275)
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>14,949</u>	<u>749</u>	<u>92,406</u>	<u>108,104</u>	<u>117,157</u>
NET INCREASE IN CASH AND RESTRICTED CASH	<u>166,944</u>	<u>16,065</u>	<u>494,357</u>	<u>677,366</u>	<u>662,624</u>
CASH AND RESTRICTED CASH - BEGINNING OF THE YEAR	<u>699,783</u>	<u>48,568</u>	<u>3,465,452</u>	<u>4,213,803</u>	<u>3,551,179</u>
CASH AND RESTRICTED CASH - END OF THE YEAR	<u>\$ 866,727</u>	<u>\$ 64,633</u>	<u>\$ 3,959,809</u>	<u>\$ 4,891,169</u>	<u>\$ 4,213,803</u>

VILLAGE OF SEBEWAING, MICHIGAN

**STATEMENT OF GENERAL LONG-TERM DEBT
YEAR ENDED MARCH 31, 2004**

Amount to be Provided for Retirement of General Long-term Debt - Accrued Compensated Absences	<u>\$ 49,827</u>
Accrued Compensated Absences	<u>\$ 49,827</u>